Office of Inspector General
Audit Report

Inactive Obligations on Contracts

Department of Transportation

Report Number: FI-2000-125
Date Issued: September 25, 2000

Memorandum

U.S. Department of Transportation

Office of the Secretary of Transportation

Office of Inspector General

Subject: ACTION: Report on Inactive Obligations on Contracts, DOT FI-2000-125

Date: September 25, 2000

From: John L. Meche
Deputy Assistant Inspector General for Financial, Information Technology, and Departmentwide Programs

Reply To Attn Of: Meche:x61496

To: Assistant Secretary for Administration

As part of our audit of contract administrative payment and closeout processes, we identified contracts with recorded obligations, but without any activity for 36 months as of August 31, 2000. This report presents the results of our audit of inactive obligations on contracts in the Department of Transportation (DOT). Our objective was to determine whether inactive obligations on contracts represented valid financial liabilities. We will issue a separate report on contract administrative payment and closeout processes in the near future.

RESULTS IN BRIEF

DOT and its Operating Administrations record obligations on contracts in the Departmental Accounting and Financial Information System. Based on computer inquiries, we identified about 4,500 contractual obligations totaling about $143 million. These obligations on contracts had no activity within the last 36 months. In a joint effort with the Operating Administrations, we identified about $35.4 million of inactive obligations on contracts that no longer represented valid financial liabilities. The inactive obligations on contracts occurred because contracting officers generally were not reviewing obligations on an annual basis and were not closing contracts as quickly as possible. Timely deobligation of unneeded funds could make funds available for other purposes or return to the United States Treasury. DOT agreed with our results.

BACKGROUND

The Federal Acquisition Regulation states that contracts should be closed no later than 36 months after completion. DOT incorporated the Federal Acquisition Regulation guidance into its acquisition standards. The Federal Aviation Administration (FAA), although not subject to the Federal Acquisition Regulation, also requires the same closeout time frames as part of its Acquisition Management System. The closing process includes deobligating excess funds.

The General Accounting Office Principles of Federal Appropriations Law state that an obligation makes the Government liable for payment at a later time. Title 31, United States Code, Section 1501 (31 U.S.C. 1501) states that obligations of the United States shall be recorded only when supported by documentary evidence. Also, 31 U.S.C. 1108 states that the head of an agency shall submit an annual certification, supported by records, showing compliance with Section 1501. Agencies are required to review unliquidated obligations before they certify those obligations. The Treasury Financial Manual Bulletin 99-04 states:

> Agencies that have not reviewed their unliquidated obligations during the year must do so before yearend closing. This ensures that agencies properly record transactions meeting the criteria of valid obligations set forth in 31 U.S.C. 1501.

SCOPE AND METHODOLOGY

DOT and its Operating Administrations record obligations on contracts in the Departmental Accounting and Financial Information System (DAFIS). To determine the validity of inactive obligations on contracts, we used 36 months of inactivity as of August 31, 2000, as the basis for review. Using computer inquiries into DAFIS, we identified about 4,500 obligations related to contracts, totaling about $143 million, that had no activity from September 1997 through March 2000.

To ensure adequate coverage across DOT, we used nonstatistical sampling to select high-dollar transactions from each Operating Administration. We selected 334 obligations totaling about $91 million. We provided the Operating Administrations with listings of their inactive obligations, from our sample, and requested that they provide support to validate obligated amounts. We reviewed responses, interviewed contracting and finance personnel, and made additional queries into DAFIS to determine whether the amounts were still valid as of August 31, 2000.

Our audit was conducted from April through September 2000. We conducted the audit in accordance with Government Auditing Standards prescribed by the Comptroller General of the United States.

ANALYSES AND RESULTS

In a joint effort with the Operating Administrations, we identified about $35.4 million of inactive obligations that no longer represented valid financial liabilities (see table below). These funds could be used for other needs or returned to the United States Treasury.

Table of Obligations Reviewed and Funds That Could Be Deobligated

Operating Administration	Number of Obligations Reviewed	Amount of Obligations Reviewed	Funds for Deobligation
Federal Highway	63	$27,992,640	$ 6,527,854
Federal Aviation	50	24,689,394	16,915,411
Maritime	43	1,169,152	506,590
Federal Transit	6	19,569	14,120
Coast Guard	37	25,719,516	1,750,318
Highway Safety	49	3,327,442	3,184,937
Volpe Center	49	3,099,774	2,720,009
Federal Railroad	10	293,135	242,148
Other*	27	4,381,182	3,515,604
Total	334	$90,691,804	$35,376,991

*Includes Office of the Secretary, Transportation Administrative Service Center, Research and Special Programs Administration (excluding Volpe), and the Bureau of Transportation Statistics.

The results of our joint efforts demonstrate that regular reviews and follow-ups of inactive obligations on contracts were not always performed. For example:

- The U.S. Coast Guard had about $400,000 in open obligated amounts on six contracts that were reported as closed in its contract monitoring system between April 1996 and October 1999.

- The Volpe Center had 37 delivery orders related to its 1989 "Omnibus 1" contracts with outstanding obligated funds of $2.4 million. These contracts were completed in 1994.

- After we provided notification of inactive obligations to FAA, it deobligated about $5 million. For example, for one completed contract, FAA deobligated about $2.1 million on August 28, 2000.

- The Federal Highway Administration (FHWA) issued income guarantee loan contracts, effective January 1, 1997, with the State of California for toll roads. FHWA would make up the difference for insufficient tolls to cover costs. For 1998 and 1999, FHWA should be able to deobligate almost $2 million because the funds were not needed.

- The National Highway Traffic Safety Administration had contracts and orders that were completed since 1995; however, $2.4 million remained obligated for those contracts.

The contract obligations remained open because contracting officers generally did not review outstanding obligations when contract performance was completed, but instead were waiting until contracts were closed out. However, as the examples show, contracts are not being closed timely.

We will address contract closeouts in a separate report to be issued in the near future. While we recognize that some funds should remain obligated until contracts are closed, significant amounts of unneeded obligations could be released for other use upon completion of contracts.

RECOMMENDATION

We recommend that the Assistant Secretary for Administration, in coordination with the DOT Chief Financial Officer, provide guidance to contracting officers requiring annual reviews of completed contracts to identify and deobligate unneeded funds.

MANAGEMENT COMMENTS

A draft of this report was provided to the Director, DOT Office of Acquisition and Grant Management, and the DOT Chief Financial Officer on September 15, 2000. They agreed with our recommendation. We considered their comments in preparing this report.

ACTION REQUIRED

In accordance with DOT Order 8000.1C, we would appreciate receiving your written comments within 30 days. Please indicate the specific action taken or planned and the target dates for completion. You may provide alternative courses of action that you believe would resolve the issues presented in this report. In addition, please comment on the validity of the $35.4 million reported as eligible for deobligation.

We appreciate the courtesies and cooperation of DOT and Operating Administration representatives. If you have questions, please call Keith Cosper or me at (202) 366-1496.

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